

INSTRUMENT PREPARED BY
VIRGINIA GAS AND OIL BOARD

ORDER RECORDED UNDER CODE
OF VIRGINIA SECTION 45.1-361.26

VIRGINIA:

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANTS:	Samuel J. Breeding)	
)	
)	DOCKET NO.
)	93-0119-0309-01
RELIEF SOUGHT:	Issuance of an Amended Supplemental)	
	Order Amending Prior Orders Affecting)	
	Drilling Unit Served by well PC-313)	
	Located in Ervinton District,)	
	Dickenson County, Virginia)	
	(herein "Subject Drilling Unit") to Provide:)	
	(1) Calculation of Funds Unit Operator)	
	Deposited into the Escrow Account for)	
	Subject Drilling Unit by Tract Subaccounts;)	
	(2) to Applicants a Royalty Accounting; and)	
	(3) Disbursement to applicants in)	
	Accordance with Their Royalty)	
	Agreement Those Funds Deposited by the)	
	Unit Operator into Subject Drilling Unit's)	
	Escrow Subaccount for VGOB Tract 4.)	

REPORT OF THE BOARD
FINDINGS AND ORDER

1. **Hearing Date and Place:** This matter came on for hearing before the Virginia Gas and Oil Board (herein "Board") at 9:00 a.m. on May 15, 2007 and June 19, 2007 at the Southwest Virginia Higher Education Center on the campus of Virginia Highlands Community College, Abingdon, VA.
2. **Appearances:** Jim Kiser, Esq. appeared for the Unit Operator; and Deanis Simmons, Assistant Attorney General, was present to advise the Board on May 15, 2007.
3. **Jurisdiction and Notice:** Pursuant to Va. Code §§ 45.1-361.1 *et seq.*, and in particular Va. Code §§ 45.1-361.21 and 45.1-361.22, the Board finds that it has jurisdiction over the establishment and maintenance of an escrow account, with tract subaccounts, for each of the coalbed methane gas drilling units established by the Board through its field rules that are subject to a Board pooling order. Further, the Unit Operator is required to deposit, as applicable, those funds specified in Va. Code § 45.1-361.21.D., 45.1-361.22.A.2, 45.1-361.22.A.3 and 45.1-361.22.A.4 into the applicable escrow tract subaccounts. The Board finds that: (1) while it does not have jurisdiction to resolve conflicting claims to the ownership of the Coalbed Methane Gas produced by the Unit Operator from wells located on Subject Drilling Unit, and (2) while it does not have jurisdiction to interpret agreements by and between the Gas owners/claimants and/or the Unit Operators or to abridge or contravene the provisions of such agreements, (3) pursuant to Va. Code § 45.1-361.22.A.5, the Board does have jurisdiction and authority to disburse funds from the Escrow Account provided the Board has been provided with a final decision of a court of competent jurisdiction adjudicating the ownership of coalbed methane gas as between the conflicting claimants or an agreement among all claimants owning conflicting estates in the tract in question or any undivided interest therein.
4. **Prior Proceedings:**

- 4.1. On February 12, 1993, the Board executed its order pooling all interests in the Subject Drilling Unit for the production of occluded natural gas produced from coalbeds and rock strata associated therewith (herein "Gas") in accordance with the provisions of Va. Code §§ 45.1-361.21 and 45.1-361.22 (herein "Pooling Order"). The Pooling Order was filed with the Clerk of the Circuit Court of Dickenson County on March 5, 1993 in Deed Book 290 at Page 001. The Board designated Equitable Production Company as the Unit Operator of the Subject Drilling Unit. The Pooling Order was amended and supplemented by the Board's Supplemental Order Regarding Elections executed on August 23, 1993 that was filed with the Clerk's Office on August 27, 1993 in Deed Book 294 at page 374 ("Supplemental Order") (hereafter the Pooling Order and the Supplemental Order are collectively referred to as the "Pooling Order").
- 4.2 To the extent claims to the Gas were in conflict, pursuant to Va. Code § 45.1-361-22 payments attributable to said conflicting claims were ordered deposited by the Unit Operator into the escrow account established by the Pooling Order (herein "Escrow Account"). According to the Pooling Order, the coal ownership interests of Pine Mountain Oil and Gas, Inc. and the oil and gas fee ownership of Samuel J. Breeding in a 6.46-acre tract in the Subject Unit known as VGOB Tract 4 were in conflict and became subject to the escrow requirements of the Pooling Order.
- 4.3 The Unit Operator's Affidavit and Miscellaneous Petition dated April 13, 2007, a copy of which is attached to and made a part hereof, states under oath that Pine Mountain Oil and Gas, Inc. and Applicants have entered into an agreement with regard to VGOB Tract 4, and that by the terms of the agreements, Pine Mountain Oil and Gas, Inc. has relinquished any and all claims to escrowed funds in Tract 4, and escrow regarding the conflicting claims detailed herein is no longer required. The Petition listed Heirs of Inas Counts as applicants for disbursement, but neither the Pooling Orders, testimony nor accounting indicated that they have claims on escrowed funds in the Subject Unit.
- 4.4 The Unit Operator gave notice to Pine Mountain Oil and Gas, Inc. and Samuel J. Breeding that the Board would take the Affidavit referred to in Paragraph 4.3 above under consideration at its hearing on May 15, 2007 and consider whether to: (1) amend the Pooling Order to provide for the disbursement of funds on deposit in the Escrow Account attributable to Tract 4 and the interest of Samuel J. Breeding, (2) delete the requirement that the Unit Operator place future royalties attributable to Tract 4 and the interests of Pine Mountain Oil and Gas and Samuel J. Breeding in the Escrow Account, and (3) continue the escrow account under this docket number because parties other than those seeking disbursement under this order are subject to escrow.
- 4.5 The Unit Operator filed the attached accounting for Subject Drilling Unit's Escrow Account with the Board ("Accounting").

5. **Findings:**

5.1. Va. Code 45.1-361.22.5 provides:

The Board shall order payment of principal and accrued interests, less escrow account fees, from the escrow account to conflicting claimants within thirty days of receipt of notification of (i) a final decision of a court of competent jurisdiction adjudicating the ownership of coalbed methane gas as between them or (ii) an agreement among all claimants owning conflicting estates in the tract in question or any undivided interest therein. The amount to be paid to the conflicting claimants shall be determined based on the percentage of ownership interest of the conflicting claimants as shown in the operator's supplemental filing made part of the pooling order that established the escrow account, the operator's records of deposits attributable to those tracts for which funds are being requested, and the records of the escrow account for the coalbed methane gas drilling unit. The interests of any cotenants who have not entered into an agreement shall remain in the escrow account.

5.2 The Unit Operator has certified and represented to the Board that:

- (1) Pine Mountain Oil and Gas, Inc. is fee owner of 100% of the coal owner claim to coalbed methane underlying VGOB Tract 4 of the Subject Drilling Unit;
- (2) Samuel J. Breeding is fee owner of a share of oil and gas interests in VGOB Tract 4.
- (3) Pine Mountain Oil and Gas has waived all claims to bonuses and/or royalties, if any, deposited in the escrow account by the Unit Operator that are attributable to the interests of Samuel J. Breeding in VGOB Tract 4.
- (4) that the net interests attributable and to be disbursed to applicants are shown in Table 1, Below.

TABLE 1		
Tract # Owner Names	% interest in gas tract	% interest in 93-0119-0309 balance
<u>Tract 4</u> Samuel J. Breeding 2344 Louita Ave. Kingsport, TN 37660	100% of 0.40375 net acres	6.2455%

6. **Relief Granted:**

For the reasons set forth in Paragraph 4 and 5 above, and based upon the Accounting, the Escrow Agent is ordered to, within 10 days of receipt of this executed order: (1) disburse 6.25 percent of the funds attributable to VGOB Tract 4, being 6.2455 percent of funds on deposit in the escrow sub-account on the date of disbursement, to Samuel J. Breeding at the address shown above.

Exhibits to the Pooling Order showing owners subject to escrow are deleted in toto and replaced with the Exhibit E attached to this order. Further, the Supplemental Order filed in this cause is hereby modified to delete the requirement that payments attributable to the conflicting coalbed methane gas ownership interests of Pine Mountain Oil and Gas, Inc. and Samuel J. Breeding in VGOB Tract 4 be deposited by the Unit Operator into the Escrow Account, and, because there are other owners subject to escrow under the Supplemental Order, the Escrow Agent is directed to continue the Escrow Account for Subject Drilling Unit. To the extent not specifically granted herein, any other or further relief is denied.

7. **Conclusion:**

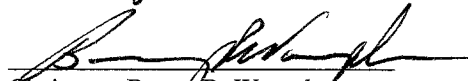
Therefore, the requested relief and all terms and provisions set forth above in Paragraph 6 above be and hereby are granted and IT IS SO ORDERED.

8. **Appeals:**


Appeals of this Order are governed by the provisions of Va. Code § 45.1-361.9 which provides that any order or decision of the Board may be appealed to the appropriate circuit court and that whenever a coal owner, coal operator, gas owner, gas operator, or operator of a gas storage field certificated by the State Corporation Commission is a party in such action, the court shall hear such appeal de novo.

9. **Effective Date:** This Order shall be effective on the date of its execution.

DONE AND EXECUTED this 21st day of August, 2007, by a majority of the Virginia Gas and Oil Board.

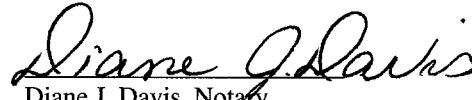

Chairman, Benny R. Wampler

DONE AND PERFORMED this 21st day of August, 2007, by an Order of this Board.


B. R. Wilson
Principal Executive to the Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA
COUNTY OF WASHINGTON

Acknowledged on this 21st day of August, 2007, personally before me a notary public in and for the Commonwealth of Virginia, appeared Benny R. Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, and appeared B. R. Wilson, being duly sworn did depose and say that he is Principal Executive to the Staff of the Virginia Gas and Oil Board that they executed the same and were authorized to do so.


Diane J. Davis, Notary
174394

My commission expires: September 30, 2009

PC 313
VGOB93/01/19-0309

<u>Tract</u>	<u>Owner Name and Address</u>	<u>Owner Net Interest</u>	<u>Total Net Interest</u>	<u>Total Amount in Escrow</u>	<u>Owner's Amount in Escrow</u>	
	<u>EPC figures</u>					
4	Samuel J Breeding PO Box 293 Grundy, VA 24614	0.00085875	0.01375000	\$18,062.73	\$1,128.10	
	<u>Bank Figures</u>					
	Samuel J Breeding	0.00085875	0.01375000	\$19,571.41	\$1,222.32	
	PO Box 293	0.00085875	0.01375000	\$2,310.73	\$144.32	Interest
	Grundy, VA 24614	0.00085875	0.01375000	(\$12.59)	(\$0.79)	Fees

* The difference of \$1508.68 between the EPC figures and the Bank figures is due to a lump sum amount initially deposited which I believe represents interest for 4/94-12/99.

Exhibit E
PC 313
VGOB 93/01/19-0309

<u>Tract</u>	<u>Lessor</u>	<u>Lease Status</u>	<u>Interest Within Unit</u>	<u>Gross Acreage In Unit</u>
	Gas Estate			
4 : MINERALS ONLY	Nancy E Counts 60 Skyland Avenue Bristol, VA 24201	Leased-EREX 243912L01	2.7500%	1.615
	Teresa K Patrick Rt 2 Box 282 Rustburg, VA 24588	Leased-EREX 243912L02	0.1370%	0.08075
	Cecil L Kiser and Julie Kiser 2133 Summers Ave Streetsboro, OH 44241	Leased-EREX 243912L03	1.5100%	0.08075
	Wilma Johnson Porter & Dale C Porter, Jr. Rt 2 Box 282 Rustburg, VA 24588	Leased-EREX 243912L04	0.1370%	0.08075
	Alice B Keen 4741 Showalter Rd NW Roanoke, VA 24017	Leased-EREX 243912L05	0.6860%	0.40375
	Leon and Janice Kiser 315 Hill Dr Bristol, TN 37620	Leased-EREX 243912L06	0.4630%	0.323
	Gaynell Johnson Sampson & Carl Edward Sampson Rt 3 Box 628 Rustburg, VA 24588	Leased-EREX 243912L07	0.1370%	0.08075
	Diana D. Kiser Rt 4 Box 654 Tazewell, VA 24630	Leased-EREX 243912L08	1.5100%	0.08075
	Lillian & Percy Crane P O Box 7 Grundy, VA 24614	Leased-EREX 243912L10	0.6870%	0.40375

Edith & David Wockenfuss 207 A 12th St Clermont, FL 34711	Leased-EREX 243912L11	0.4630%	0.323
Freddie Johnson Rt 1 Box 132 Goodview, VA 24095	Leased-EREX 243912L12	0.1370%	0.08075
Sharon Dickson 295 Bethel Dr #39 Bristol, TN 37620	Leased-EREX 243912L13	0.1830%	0.10767
Dorothy C. Kiser 251 Oak Lane Bluff City, TN 37618	Leased-EREX 243912L14	0.4630%	0.323
Ruby Marie Johnson & William C Johnson 5519 Chenault Ave Orlando, FL 32839	Leased-EREX 243912L15	0.2280%	0.13458
Kathy A & Larry D Breeding 1569 Sonoma CT Jacksonville, FL 32221	Unleased	0.2280%	0.13458
Terry L & Debbie Tomlinson 132 Noth Clay St Coldwater, MI 49036	Leased-EREX 243912L17	0.2280%	0.13458
Robin M & Blain Owens 103 Jefferson Bristol, VA 24201	Leased-EREX 243912L16	0.1830%	0.10767
Sonny Don Duty & Lana Duty 103 Jefferson Bristol, VA 24201	Unleased	0.1830%	0.10767

Coal Estate4
ID 14114

Clinchfield Coal Company
Paul Guild, Chief Engineer
P.O. Box 7
Dante, VA 24237
Pegasus Resources Company
Larry Cline, Property Manager
PO Box 5100
Lebanon, VA 24266

Leased-EREX
T2(C)-214

10.3130% 4.60275

INSTRUMENT #070001542
RECORDED IN THE CLERK'S OFFICE OF
DICKENSON ON
AUGUST 22, 2007 AT 01:42PM
JOE TATE, CLERK

RECORDED BY JBN

VIRGINIA: IN THE OFFICE OF THE CLERK OF THE CIRCUIT COURT OF DICKENSON COUNTY, Aug. 22, 2007 This deed was this day
presented in said office, and upon the certificate of acknowledgment thereto annexed, admitted to record at 1:42 o'clock PM, after payment of
\$ — tax imposed by Sec. 58.1-802.

Original returned this date to:

B. R. Wilson

BY:

TESTE: JOE TATE, CLERK

D. CLERK